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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 000814

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SUBJECT: ISRAEL WANTS TO PREVENT HUMANITARIAN CRISIS IN PA

Classified By: DCM Gene A. Cretz for reasons 1.4 b and d.

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Summary  
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1. (C) Ministry of Finance DG Yossi Bachar emphasized in a February 23 meeting with NEA DAS Dibble that the GOI is torn between the imperative of not dealing with a Hamas-led PA government on the one hand and doing everything possible to not harm the Palestinian population on the other. He said that if the Palestinians suffer, Israelis will too, but stressed that any steps taken with regard to humanitarian assistance have to be closely coordinated with the international community, especially the U.S. In his view, one of the main problems is that the GOI does not know who will be in the PA government and if it will even be possible to hold talks with them. The important thing, according to Bachar, is to figure out how to provide humanitarian help for the Palestinian population without dealing with Hamas, and he also agreed with DAS Dibble's emphasis on the need to keep any aid that is provided from redounding to Hamas' credit. Regarding the provision of gasoline supplies and health care, Bachar said that there are legal problems in deducting payments for them from the customs and other tax revenue that Israel collects on the PA's behalf. Also, such deductions would amount to the same thing as transferring money to the PA, and the GOI would not countenance that. Deducting for Gaza electricity and water payments, however, are specifically permitted by the Paris Protocol, and Israel will continue to do so. He also noted that, with elections coming, decisions on these issues are very politically sensitive, and that it is up to the political echelon to decide how to proceed. End Summary

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Humanitarian Crisis Must be Prevented  
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2. (C) In a February 23 meeting with NEA DAS Elizabeth Dibble, Israel Desk Senior Economic officer Greg Logerfo, and Economic Counselor and Deputy Counselor, Ministry of Finance DG Yossi Bachar and Senior Advisor Rani Loebenstein said that they agreed completely with the U.S. view that everything possible must be done to prevent a humanitarian crisis in the PA, while at the same time not dealing with the Hamas-led government. Bachar emphasized that, from a practical point of view, the GOI has no partner now in the PA, and is therefore engaged in an internal debate on how to proceed. The key points at issue are how to help the Palestinian people avert a humanitarian crisis while not dealing with Hamas, and preventing Hamas from getting the credit for any aid that is eventually provided.

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Deduction for Gasoline Viewed as Funds Transfer to Hamas  
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3. (C) Both Bachar and Loebenstein noted that if Hamas is truly less corrupt than Fatah, given that a large percentage of the PA's money had, in the past, been siphoned off by corrupt officials, less money than last year's USD 1.1 billion in international aid is actually needed to keep the PA running. Loebenstein said that the monthly cost of spending on electricity, gasoline, and health for the PA comes to about NIS 375 million (about USD 80 million), and right now, it is not clear how it will be paid for. Bachar said that the GOI could not simply take money from the customs and other tax revenues collected by Israel on behalf of the PA to pay a monthly bill of about NIS 300 million (USD 64 million) for fuel shipments supplied by a private Israeli company. Firstly, there are legal problems making that difficult to do. Taking deductions for water and electricity is specifically allowed by the Paris Protocol, but this is not the case with gasoline, which is sold to the PA by a private company. Secondly, since the PA Ministry of Finance has a monopoly on gasoline sales in the Palestinian territories, and gets money for the sale of the product, any deduction from Israeli-collected revenue for gasoline rather than direct payment by the PA would be tantamount to a transfer of funds to the Hamas-led PA -- and GOI policy precludes that. (Note: The PA buys fuel products wholesale from an Israeli supplier which it then distributes to private

retailers. The PA subsidizes a small portion of the sales price, since retail prices are slightly lower in Palestinian areas than in Israel, and does not make money off of those sales. According to the IMF, during the first six months of 2005, the PA provided USD 40 million in subsidies for oil and gas products. End note.) Bachar and Loebenstein both agreed that there is a need to provide fuel to the PA, but figuring out how to do so presents a very difficult practical problem.

Bachar stressed that final decisions on these types of issues would be made at the political level. In addition, he noted that now, in the run-up to the elections, every decision would be very politically sensitive. Furthermore, decisions related to any transfers to the Palestinians are likely to be challenged in a variety of ways, including at the Israeli Supreme Court. After the elections, he said that the situation will be somewhat different, and the GOI will likely take another look at many of the issues.

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Water, Electricity Will Not be Cut Off  
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14. (C) Regarding electricity and water, Bachar agreed with DAS Dibble that maintaining their continuous supply is a humanitarian issue, and noted that the GOI had not cut them off in the past, even when payment was delayed. In an off-the-record aside, Bachar confided his personal view that he could not conceive that a government led by Ehud Olmert would cut off water or electricity due to lack of payment. He said that Olmert had met with former PA Finance Minister Salam Fayyad more than three times since he became Israel's (Acting) Finance Minister last summer, and has a good relationship with him. He added that he himself and his staff had excellent relations with their previous Palestinian counterparts, had become very friendly with many of them, and had been able to work closely with them to solve many difficult problems.

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Simple Mechanisms Needed for Assistance  
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15. (C) Regarding health care provided by Israel to the Palestinian population, Loebenstein elaborated on the mechanism previously used to secure reimbursement from the PA for costs incurred, and said that it would be possible to work out a way to continue to provide the services, possibly through use of a third party like the Red Cross. In response to DAS Dibble's request to define the GOI view of what constitutes humanitarian aid, he said that the government has tasked a group led by FM Livni with working this out. The results are expected to be presented to NEA A/S Welch at his upcoming meetings in Israel. Dibble noted that salaries constituted a large part of the expenses involved in paying for health and education. Loebenstein said that the Saudis or other Arabs would provide the money for salaries. Dibble then suggested involving private NGOs in the efforts to provide assistance and specifically mentioned UNRWA for food assistance. Loebenstein and Bachar were open to the suggestion, pointing out that most UNRWA money, in any case, comes from the U.S. Loebenstein claimed, however, that according to Israeli information, most UNRWA staff people on the ground are affiliated in some fashion with Hamas. He added that, regardless of the mechanism, it would not take a lot of money to positively affect the lives of most ordinary Palestinians. The most important thing is to establish a simple mechanism for funneling aid to them, and especially to make sure they know that the aid does not come from Hamas.

16. (U) DAS Dibble cleared this cable.

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